

KANE COUNTY SCHOOL DISTRICT

FINANCIAL REPORT

JUNE 30, 2006

KANE COUNTY SCHOOL DISTRICT  
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## INDEPENDENT AUDITORS' REPORT

To the Board of Education  
Kane County School District  
Kanab, Utah 84741

We have audited the accompanying financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Kane County School District, (the "District"), as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Kane County School District as of June 30, 2006, and the respective changes in financial position thereof and the respective budgetary comparison for the Maintenance and Operation Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis is not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The supplementary major fund budget to actual, combining and nonmajor fund statements listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the same auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued a report dated August 11, 2006, on our consideration of Kane County School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

*Wiggins & Co., PC*

Brigham City, Utah  
August 11, 2006

## Management's Discussion and Analysis

As the management of the Kane School District (District), we offer readers of the District's financial statements this narrative discussion, overview, and analysis of the financial activities of the District for the fiscal year ending June 30, 2006.

### Financial Highlights

The District categorizes its revenues in three groups by source, federal, state, and local. Federal revenues include categorical funding for special programs, grants, and other specifically designated purposes. State revenues include categorical funding as described above, enrollment based funding using weighted pupil units (WPU), and other funding which is distributed by various formula designed to assure an equitable allocation among all districts in the state. Local revenues are derived from property tax, tuitions, other fees and charges, and interest income.

For fiscal years ending June 30, 2003, 2004, and 2005, the District received awards from the Utah State Office of Education for excellence achieved in the reporting of 2003, 2004, and 2005 annual financial information to the Utah State Office of Education. The District anticipates that it will again receive this award for the fiscal year ending June 30, 2006.

### Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

**Government-wide financial statements.** The *government-wide financial statements* are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private sector business.

The *statement of net assets* presents information on all of the assets and liabilities of the District, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The *statement of activities* presents information showing how the net assets of the District changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of the related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. uncollected taxes and earned but unused vacation leave).

The government-wide financial statements can be found on pages 11-12 of this report.

**Fund financial statements.** A *fund* is a group of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and

demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into three categories: government funds, proprietary funds, and fiduciary funds.

**Governmental funds.** *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The District maintains five individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the Maintenance and Operation Fund, Debt Service Fund and the Capital Project Fund, all of which are considered to be major funds. Data from the other two governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report.

The District adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 13-17 of this report.

**Fiduciary funds.** Fiduciary funds are used to account for resources held for the benefit of parties outside the governmental entity. Fiduciary funds are *not* reflected in the government-wide financial statement because the resources of those funds are not available to support the District's own programs.

The District uses an agency fund to account for resources held for student activities and groups. The basic fiduciary fund financial statement can be found on page 18 of this report.

**Notes to the financial statements.** The notes provide additional information that is essential for a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 19-30 of this report.

**Other information.** The combining statements referred to in connection with nonmajor governmental funds and internal service funds are presented immediately following the notes to the financial statements. Combining and individual fund statements and schedules can be found on pages 31-36 of this report.

## Government-wide Financial Analysis

As noted earlier, net assets may serve as a useful indicator of a government's financial position over time. The District assets exceeded liabilities by \$13,407,862 at the close of the most recent fiscal year.

### KANE SCHOOL DISTRICT'S Net Assets

	Governmental activities		Total Change 2005-2006
	2005	2006	
Current and other assets	3,934,574	4,557,642	623,068
Capital assets	18,283,690	17,731,562	(552,128)
Total assets	22,218,264	22,289,204	70,940
Other liabilities	1,660,153	2,105,583	445,430
Long-term liabilities outstanding	7,326,555	6,775,759	(550,796)
Total liabilities	8,986,708	8,881,342	(105,366)
Net assets:			
Invested in capital assets, net of related debt	11,948,691	11,956,563	7,872
Restricted	1,776,477	2,281,050	504,573
Unrestricted	(493,611)	(829,751)	(336,140)
Total net assets	13,231,556	13,407,862	176,306

The largest portion of the District's net assets (89%) reflects its investment in capital assets (e.g. land, buildings and improvements), less any related debt (general obligation bonds payable and obligations under capital leases less unspent bond proceeds) used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to students; consequently, these assets are *not* available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the District's net assets (17%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets* (\$829,751) may be used to meet the District's ongoing obligations to students, employees, and creditors. The unrestricted net asset amount has been designated for the following purposes:

- **Post employment benefit obligation.** The District offers eligible employees a retirement stipend and insurance benefit. The insurance benefit is to provide health and accident insurance at a couple rate for a period of up to five years. Once a retiree is eligible for Medicare part A, then the insurance benefit expires. The School District funds this benefit on a pay-as-you-go basis. The School District has a potential liability for post-employment benefits calculated at the net present value of the estimated liability. The amount recorded in the financial statements for 2006 is \$1,712,267.

# KANE SCHOOL DISTRICT'S Changes in Net Assets

	Governmental activities		Total Change 2004-2005
	2005	2006	
<b>Revenues:</b>			
Program revenues:			
Charges for services	820,057	818,502	(1,555)
Operating grants and contributions	4,081,381	4,001,652	(79,729)
Capital grants and contributions	16,000	11,829	(4,171)
General revenues:			
Property taxes	3,534,503	3,969,006	434,503
Federal and state aid not restricted to specific purposes	3,160,397	3,369,478	209,081
Earnings on investments	91,250	179,106	87,856
Miscellaneous	(2,081)	-	2,081
<b>Total revenues</b>	<b>11,701,507</b>	<b>12,349,573</b>	<b>648,066</b>
<b>Expenses:</b>			
Instructional services	6,031,297	7,357,995	1,326,698
Supporting services:			
Students	539,587	532,677	(6,910)
Instructional staff	212,833	334,420	121,587
General administration	348,029	384,615	36,586
School administration	554,883	599,369	44,486
Business	189,075	193,907	4,832
Operation and maintenance of facilities	1,318,214	1,248,654	(69,560)
Transportation	528,962	283,920	(245,042)
Central	126,577	238,718	112,141
Other	11,861	10,739	(1,122)
School lunch services	406,322	443,857	37,535
Interest on long-term liabilities	242,778	221,333	(21,445)
Facilities acquisition/construction	860,334	323,064	(537,270)
Debt service:			
Principal	-	-	-
Interest and fiscal charges	-	-	-
Bond issuance costs	-	-	-
<b>Total expenses</b>	<b>11,370,752</b>	<b>12,173,268</b>	<b>802,516</b>
Excess (deficiency) of revenues over (under) expenditures	330,755	176,305	(154,450)
Increase (decrease) in net assets	330,755	176,305	(154,450)
Net assets – beginning	12,900,802	13,231,557	330,755
Net assets – ending	13,231,557	13,407,862	176,305



# KANE SCHOOL DISTRICT'S Revenue and Expense per Pupil

	<u>2005</u>	<u>2006</u>	<u>Total change</u> <u>2005-2006</u>
Revenue per pupil:			
Local			
State			
Federal			
Total revenue per pupil	9,767	10,369	602
Expense per pupil	10,019	10,221	202
Student population	1,169	1,191	22

The total net assets of the District increased by \$176,305 during the fiscal year. Cash and cash equivalents increased by \$654,583 and investment in capital assets, net of debt increased \$7,872. The remaining amount is from changes in accounts receivable, capital projects and long-term debt. The following discussion and analysis on governmental activities focuses on this increase:

**Governmental activities.** The key elements of the increase of the District's net assets for the year ended June 30, 2006 are as follows:

Total assets	22,289,204
Capital assets – net	17,731,562
Other assets	4,557,642
Total liabilities	8,881,342
Current liabilities	2,105,583
Non-current liabilities	6,775,759
Net assets	13,407,862
Net assets-Invested in capital assets	11,956,563
Net assets-restricted	2,281,050
Net assets-unrestricted	(829,751)
Program revenues:	
Charges for services	818,502
Operating Grants	4,001,652
Capital Grants	11,829
General revenues:	
Property taxes	3,969,006
Unrestricted grants	3,369,478
Investment earnings	179,106
Total expenses	12,173,268
Change in net assets	176,305

## Financial Analysis of the District's Funds

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental funds.** The focus of the District's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the District's financing requirements. The unreserved fund balance is divided between designated balances and undesignated balances. The District has designated portions of the unreserved fund balance to restrict resources for certain government-wide liabilities and post employment obligations that are not recognized in the governmental funds. State law requires that undesignated balances in the general fund be appropriated in the following year's budget. Fund balances of capital projects and other governmental funds are restricted by state law to be spent for the purpose of the fund and are not available for spending at the District's discretion.

**Maintenance and Operation fund.** The maintenance and operation fund is the chief operating fund of the District. At the end of the 2006 fiscal year, the unreserved and undesignated fund balance was \$992,938. The unreserved and undesignated fund balance decreased by \$157,998 during the current fiscal year. Key factors in this decrease are as follows:

- Increase in the total operating expenditures exceeded the increase in operating revenues for the current fiscal year.

Expenditures for general District purposes totaled \$9,722,585 which is an increase of 9.14% over the previous year. This increase was due to such things as increased expenditures for employee health insurance and increased expenditures in programs such as special education, K-3 reading program, increased utility costs and other factors. Instructional services represent 62.97% of general fund expenditures.

General fund salaries totaled \$5,327,532 while the associated fringe benefits of retirement, social security, unemployment, worker's compensation, and health and accident insurance added \$2,421,134 which is 78% of general fund expenditures.

The capital projects fund has a total balance of \$1,063,521 all of which is restricted for acquisition of capital assets and purchase of supplies and related expenditures. The fund balance increased by \$374,263 during the current fiscal year due to decreased capital expenditures.

The debt service fund has a total fund balance of \$1,063,677 all of which is reserved for the payment of debt service on general obligation bonds. The fund balance increased by \$130,631 during the year, primarily due to increased collections of property tax revenue.

The school lunch special revenue fund balance of \$18,622 is within the amount allowed by state guidelines and is restricted to the school lunch program.

The Kane Schools Foundation for Students received contributions of \$21,571 during the year to assist various school programs.

### **General Fund Budgetary Highlights**

The difference between the original budget and the final amended budget was \$773,567 or 7.82% of total general fund budgeted expenditures. These differences may be summarized as follows:

- \$279,813 or 4.61% increase in instructional services

- \$493,754 or 16.26% increase in supporting services-operation and maintenance of facilities

During the year the final budgeted revenues exceeded the original budgetary estimates by \$646,864 or 6.7% of total general fund budgeted revenues. These differences may be summarized as follows:

- \$25,000 or 1.36% increase in property tax revenue
- \$350,509 or 5.03% increase in intergovernmental revenue
- \$271,355 or 200% increase in revenue from services provided

Kane District ended the current fiscal year, with a (\$49,037) (0.5% of actual revenue) negative budget to actual variance in total general fund revenues, and a \$164,357 (1.69% of actual expenditures) positive budget to actual variance in total general fund expenditures. These variances are immaterial in amount.

### Capital Asset and Debt Administration

**Capital Assets.** The capital projects fund is used to account for the costs incurred in acquiring and improving sites, constructing and remodeling facilities, and procuring equipment necessary for providing educational programs for all students within the District. The District began various remodeling projects throughout fiscal year 2006 at a projected cost of \$1,120,600. Actual capital expenditures on projects completed during the current fiscal year were \$893,675.

The District operates schools in seven locations with administrative and bus maintenance facilities located in Kanab. These buildings total more than 370,000 square feet and are spread across Kane County.

Additional information on the District's capital assets can be found in Notes 1 and 4 to the basic financial statements.

Capital assets at June 30, 2005 and 2006 are outlined below:

#### KANE SCHOOL DISTRICT'S Capital Assets

	Governmental activities		Total Change
	2005	2006	2005-2006
Land	1,354,937	1,354,937	-
Buildings and improvements	15,944,282	15,505,356	(438,926)
Construction in progress	63,184	55,910	(7,274)
Furniture and equipment	921,287	815,359	(105,928)
Total capital assets	18,283,690	17,731,562	(552,128)

### **Debt Administration.**

The general obligation bonded debt of the District is limited by state law to 4% of the fair market value of the total taxable property in the District. The legal debt limit at June 30, 2006 is \$38,903,787. General obligation debt at June 30, 2006 is \$5,775,000 (see table below) resulting in a legal debt margin of \$33,128,787.

#### **KANE SCHOOL DISTRICT'S Outstanding Debt**

	<u>Governmental activities</u>		<u>Total</u>
	<u>2005</u>	<u>2006</u>	<u>Change</u>
			<u>2005-2006</u>
Beginning Balance	6,845,000	6,335,000	(510,000)
Additions	-	-	-
Retirements	(510,000)	(560,000)	(50,000)
Ending Balance	<u>6,335,000</u>	<u>5,775,000</u>	<u>(560,000)</u>

### **Changing Enrollment within the District**

The components of changing enrollment are migration and the kindergarten-to-grade-12 (K-12) differential. The K-12 differential is the variance in the number of kindergarten students entering and the number of grade 12 students leaving the District in a given year.

Enrollment in the District has been consistently declining since the 1997-1998 school year, from a high of 1,490 to the present level of 1,191 at the end of the current fiscal year.

### **Requests for Information**

This financial report is designed to provide a general overview of the Kane School District's finances for all those with an interest in such matters. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the Business Administrator, Kane School District, 746 South, 175 East, Kanab, Utah 84741.

**KANE COUNTY SCHOOL DISTRICT  
STATEMENT OF NET ASSETS  
JUNE 30, 2006**

	Governmental Activities	Component Unit
<b>ASSETS</b>		
Cash and cash equivalents	\$ 3,899,515	\$ 30,563
Receivables (net of allowance for uncollectibles):		
Taxes	278,545	-
Accounts	4,988	-
Due from other government units	300,552	-
Inventory	9,844	-
Restricted cash and cash equivalents	53,681	-
Deferred charges	10,517	-
Capital assets (net of accumulated depreciation):		
Land	1,354,937	-
Buildings	14,624,796	-
Improvements other than buildings	880,560	-
Equipment	394,956	-
Vehicles	420,403	-
Construction in progress	55,910	-
	<u>22,289,204</u>	<u>30,563</u>
Total Assets		
<b>LIABILITIES</b>		
Accounts payable	754,918	-
Accrued liabilities	518,219	-
Bond interest payable	8,182	-
Noncurrent liabilities - due within one year	824,264	-
Noncurrent liabilities - due in more than one year	6,775,759	-
	<u>8,881,342</u>	<u>-</u>
Total Liabilities		
<b>NET ASSETS</b>		
Investment in capital assets, net of debt	11,956,563	-
Restricted for:		
Debt service	1,063,677	-
Other purposes	153,852	25,551
Capital projects	1,063,521	-
Unrestricted	(829,751)	5,012
	<u>\$ 13,407,862</u>	<u>\$ 30,563</u>
Total Net Assets		

The notes to the financial statements are an integral part of this statement.

KANE COUNTY SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2006

		Program Revenues				Net (Expense) Revenue and Changes in Net Assets	Net (Expense) Revenue and Changes in Net Assets
						Primary Governmental Activities	Component Unit
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions			
<b>FUNCTIONS/PROGRAMS</b>							
<b>PRIMARY GOVERNMENT</b>							
Governmental activities:							
Instruction	\$ 7,357,995	\$ 122,150	\$ 3,254,635	\$ -	\$ (3,981,210)	\$ -	
Support services:							
Students	532,677	304,202	40,355	-	(188,120)	-	
Instructional staff	334,420	-	41,189	-	(293,231)	-	
General administration	384,615	-	124,493	-	(260,122)	-	
School administration	599,369	-	-	-	(599,369)	-	
Business	193,907	-	-	-	(193,907)	-	
Operations/maintenance of plant	1,248,654	-	-	-	(1,248,654)	-	
Student transportation	283,920	-	283,131	-	(789)	-	
Central services	238,718	-	-	-	(238,718)	-	
Other	10,739	-	-	-	(10,739)	-	
School food services	443,857	138,352	257,849	-	(47,656)	-	
Facilities acquisition/construction	323,064	253,798	-	11,829	(57,437)	-	
Interest on long-term debt	221,333	-	-	-	(221,333)	-	
Total primary government	<u>\$ 12,173,268</u>	<u>\$ 818,502</u>	<u>\$ 4,001,652</u>	<u>\$ 11,829</u>	<u>(7,341,285)</u>		
Component Unit:							
Kane School District Foundation	<u>\$ 12,129</u>	<u>\$ -</u>	<u>\$ 18,059</u>	<u>\$ -</u>			<u>5,930</u>
General revenues							
Property taxes					3,969,006	-	
Grants and contributions not restricted to specific programs					3,369,478	3,512	
Unrestricted investment earnings					179,106	118	
Loss on sale of capital assets					-	-	
Total general revenues and transfers					<u>7,517,590</u>	<u>3,630</u>	
Change in net assets					<u>176,305</u>	<u>9,560</u>	
Net assets - beginning					<u>13,231,557</u>	<u>21,003</u>	
Net assets - ending					<u>\$ 13,407,862</u>	<u>\$ 30,563</u>	

The notes to the financial statements are an integral part of this statement.

**KANE COUNTY SCHOOL DISTRICT  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2006**

	Maintenance and Operation Fund	Debt Service Fund	Capital Projects Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>ASSETS</b>					
Cash and cash equivalents	\$ 1,712,730	\$ 646,325	\$ 1,420,382	\$ 120,078	\$ 3,899,515
Receivables (net of uncollectibles):					
Accounts	887	1,536	-	2,565	4,988
Taxes	148,501	63,816	66,228	-	278,545
Due from other governments	265,871	-	-	34,681	300,552
Due from other funds	-	352,000	-	-	352,000
Restricted cash and cash equivalents	53,681	-	-	-	53,681
Inventory	-	-	-	9,844	9,844
Total assets	<u>\$ 2,181,670</u>	<u>\$ 1,063,677</u>	<u>\$ 1,486,610</u>	<u>\$ 167,168</u>	<u>\$ 4,899,125</u>
<b>LIABILITIES AND FUND BALANCES</b>					
Liabilities:					
Accounts payable	\$ 675,306	\$ -	\$ 71,089	\$ 8,523	\$ 754,918
Accrued payroll liabilities	513,426	-	-	4,793	518,219
Due to other funds	-	-	352,000	-	352,000
Liabilities payable from restricted assets	-	-	-	-	-
Total liabilities	<u>1,188,732</u>	<u>-</u>	<u>423,089</u>	<u>13,316</u>	<u>1,625,137</u>
Fund balances					
Reserved for inventory	-	-	-	9,844	9,844
Reserved for debt service	-	1,063,677	-	-	1,063,677
Reserved for capital improvements	-	-	1,063,521	-	1,063,521
Unreserved					
Undesignated	992,938	-	-	-	992,938
Undesignated, reported in nonmajor:					
Special revenue funds	-	-	-	144,008	144,008
Total fund balances	<u>992,938</u>	<u>1,063,677</u>	<u>1,063,521</u>	<u>153,852</u>	<u>3,273,988</u>
Total liabilities and fund balances	<u>\$ 2,181,670</u>	<u>\$ 1,063,677</u>	<u>\$ 1,486,610</u>	<u>\$ 167,168</u>	<u>\$ 4,899,125</u>

The notes to the financial statements are an integral part of this statement.

**KANE COUNTY SCHOOL DISTRICT**  
**RECONCILIATION OF THE BALANCE SHEET-GOVERNMENTAL FUNDS TO THE STATEMENT OF**  
**NET ASSETS**  
**JUNE 30, 2006**

Total fund balances-governmental funds \$ 3,273,988

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. These assets consist of:

Land	1,354,937	
Buildings	25,079,652	
Improvements other than buildings	1,322,688	
Equipment	827,006	
Vehicles	1,559,139	
Construction in progress	55,910	
Accumulated depreciation	<u>(12,467,770)</u>	
Total capital assets		17,731,562

Bond issue costs and bond premiums/discounts are reported as expenditures in the governmental funds. The cost is \$13,145 and the accumulated amortization is \$2,628.

10,517

Some liabilities are not due and payable in the current period and therefore not reported in the funds. Those liabilities consist of:

Bonds payable	(5,775,000)	
Post employment benefits payable	(1,712,267)	
Compensated absences	(112,756)	
Accrued interest on bonds and leases	<u>(8,182)</u>	
Total liabilities		<u>(7,608,205)</u>

Total net assets-governmental funds \$ 13,407,862

The notes to the financial statements are an integral part of this statement.



KANE COUNTY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2006

	Maintenance and Operation Fund	Debt Service Fund	Capital Projects Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>REVENUES</b>					
Property taxes	\$ 2,116,001	\$ 909,313	\$ 943,692	\$ -	\$ 3,969,006
Intergovernmental	6,969,729	-	-	394,215	7,363,944
Charges for services	395,374	-	248,744	148,298	792,416
Investment earnings	101,983	2,321	74,802	-	179,106
Grants, contributions and donations	23,500	-	700	-	24,200
<b>Total revenues</b>	<b>9,606,587</b>	<b>911,634</b>	<b>1,267,938</b>	<b>542,513</b>	<b>12,328,672</b>
<b>EXPENDITURES</b>					
<b>Current:</b>					
Instruction	6,122,139	-	160,910	165,420	6,448,469
Support services:					
Students	559,305	-	-	300	559,605
Instructional staff	334,420	-	-	-	334,420
General administration	393,474	-	-	-	393,474
School administration	532,704	-	-	-	532,704
Business	197,823	-	-	-	197,823
Operations/maintenance of plant	877,534	-	409,700	-	1,287,234
Student transportation	455,783	-	-	-	455,783
Central services	238,718	-	-	-	238,718
Other	10,685	-	-	54	10,739
School food services	-	-	-	423,300	423,300
Facilities acquisition/construction	-	-	323,065	-	323,065
Debt service:					
Principal	-	560,000	-	-	560,000
Interest and fiscal charges	-	221,003	-	-	221,003
<b>Total expenditures</b>	<b>9,722,585</b>	<b>781,003</b>	<b>893,675</b>	<b>589,074</b>	<b>11,986,337</b>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	<b>(115,998)</b>	<b>130,631</b>	<b>374,263</b>	<b>(46,561)</b>	<b>342,335</b>
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers in	-	-	-	42,000	42,000
Transfers out	(42,000)	-	-	-	(42,000)
Proceeds from bond refunding	-	-	-	-	-
Payments to refunding escrow	-	-	-	-	-
Sale of capital assets	-	-	-	-	-
<b>Total other financing sources and uses</b>	<b>(42,000)</b>	<b>-</b>	<b>-</b>	<b>42,000</b>	<b>-</b>
<b>Net change in fund balances</b>	<b>(157,998)</b>	<b>130,631</b>	<b>374,263</b>	<b>(4,561)</b>	<b>342,335</b>
<b>Fund balances - beginning</b>	<b>1,150,936</b>	<b>933,046</b>	<b>689,258</b>	<b>158,413</b>	<b>2,931,653</b>
<b>Fund balances - ending</b>	<b>\$ 992,938</b>	<b>\$ 1,063,677</b>	<b>\$ 1,063,521</b>	<b>\$ 153,852</b>	<b>\$ 3,273,988</b>

The notes to the financial statements are an integral part of this statement.

KANE COUNTY SCHOOL DISTRICT  
RECONCILIATION OF THE STATEMENT OF REVENUES,  
EXPENDITURES, AND CHANGES IN FUND BALANCE-GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2006

Net change in fund balances - total governmental funds \$ 342,335

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period. (552,129)

Governmental funds expense capital assets as they are acquired. In the statement of activities, gain or loss is recognized as capital assets are disposed. -

In the statement of activities, commodities received are recognized as revenue and commodities used are recognized as expense. The amount received and used during 2006 was \$20,902. -

Accrued interest on long-term debt reported in the statement of activities does not require the use of current financial resources and therefore is not reported as expenditures in governmental funds. This is the current year change in the liability, reported as a decrease in interest expense in the statement of activities. 985

The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items. 558,686

The liability for compensated absences is not recorded in the governmental funds, but is reported in the statement of net assets. This is the current year change in the liability, reported as expense in the 98,165

The liability for post employment benefits is not recorded in the governmental funds, but is reported in the statement of net assets. This is the current year change in the liability, reported as expense in the statement of activities. (271,737)

Change in net assets of governmental activities \$ 176,305

The notes to the financial statements are an integral part of this statement.

KANE COUNTY SCHOOL DISTRICT  
MAINTENANCE AND OPERATION FUND  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL  
FOR THE YEAR ENDED JUNE 30, 2006

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Property taxes	\$ 1,841,336	\$ 1,866,336	\$ 2,116,001	\$ 249,665
Intergovernmental	6,972,022	7,322,531	6,969,729	(352,802)
Charges for services	135,902	407,257	395,374	(11,883)
Investment earnings	36,000	36,000	101,983	65,983
Grants, contributions and donations	23,500	23,500	23,500	-
Total revenues	<u>9,008,760</u>	<u>9,655,624</u>	<u>9,606,587</u>	<u>(49,037)</u>
<b>EXPENDITURES</b>				
Current:				
Instruction	6,075,865	6,355,678	6,122,139	233,539
Support services:				
Students	247,222	543,860	559,305	(15,445)
Instructional staff	354,430	366,430	334,420	32,010
General administration	410,368	412,368	393,474	18,894
School administration	510,717	510,717	532,704	(21,987)
Business	203,594	203,594	197,823	5,771
Operation/maintenance of plant	771,451	787,751	877,534	(89,783)
Student transportation	408,284	462,100	455,783	6,317
Central services	131,444	237,144	238,718	(1,574)
Other	-	7,300	10,685	(3,385)
Facilities acquisition/construction	-	-	-	-
Debt Service:				
Principal	-	-	-	-
Interest and fiscal charges	-	-	-	-
Bond issuance costs	-	-	-	-
Total expenditures	<u>9,113,375</u>	<u>9,886,942</u>	<u>9,722,585</u>	<u>164,357</u>
Excess of revenues over expenditures	<u>(104,615)</u>	<u>(231,318)</u>	<u>(115,998)</u>	<u>115,320</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	-	-	-	-
Transfers out	(40,000)	(40,000)	(42,000)	(2,000)
Capital leases	-	-	-	-
Sale of capital assets	-	-	-	-
Total other financing sources and uses	<u>(40,000)</u>	<u>(40,000)</u>	<u>(42,000)</u>	<u>(2,000)</u>
Net change in fund balances	<u>(144,615)</u>	<u>(271,318)</u>	<u>(157,998)</u>	<u>113,320</u>
Fund balances - beginning	1,150,936	1,150,936	1,150,936	-
Fund balances - ending	<u>\$ 1,006,321</u>	<u>\$ 879,618</u>	<u>\$ 992,938</u>	<u>\$ 113,320</u>

The notes to the financial statements are an integral part of this statement.

**KANE COUNTY SCHOOL DISTRICT  
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES  
AGENCY FUNDS  
JUNE 30, 2006**

**ASSETS**

Cash and cash equivalents

\$ 100,989

Total assets

\$ 100,989

**LIABILITIES**

Funds held for others

\$ 100,989

Total liabilities

\$ 100,989

The notes to the financial statements are an integral part of this statement.

KANE COUNTY SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2006

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Kane County School District is located in the south-central portion of the State of Utah. It was organized by State Statute and serves the citizens of Kane County. The School District provides educational and related services.

The financial statements of Kane County School District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the School District's accounting policies are described below.

**A. Reporting Entity**

The accompanying financial statements include the School District, which is a political subdivision with corporate powers created under Utah State law, and all of its blended component units, collectively referred to as the financial reporting entity. As required by generally accepted accounting principles (GAAP), these financial statements present Kane County School District (referred to as the "primary government" for reporting purposes). Kane Schools Foundation for Students is a discrete component unit, although a legally separate entity, of Kane County School District.

Kane Schools Foundation for Students is a separate but affiliated, self-sustaining, not-for-profit organization. The Foundation was established to provide support for the Kane County School District, its faculty and students, and to promote, sponsor and carry out educational, scientific, charitable and related activities and objectives within the Kane County School District. It is governed by a board of directors made up of local individuals. The Foundation is considered to be a component unit of the District because the purpose of the Foundation is to exclusively, or almost exclusively, benefit the District by soliciting contributions and managing the funds. The Foundation does not have a separate audit performed.

**B. Government-wide and Fund Financial Statements**

**Government-wide Financial statements.** The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the School District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees charged to external parties for goods or services.

**Fund Financial Statements.** Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. The remaining governmental funds are combined into a single column and reported as other (nonmajor) funds.

**C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

**Government-wide Financial Statements.** The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

KANE COUNTY SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2006

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

The use of financial resources to acquire capital assets are capitalized as assets in the government-wide financial statements, rather than reported as an expenditure. Proceeds of long-term debt are recorded as a liability in the government-wide financial statements, rather than as an other financing source. Amounts paid to reduce long-term debt are reported as a reduction of the related liability, rather than an expenditure in the government-wide financial statements.

**Governmental Fund Financial Statements.** Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. "Measurable" means that amounts can be reasonably determined within the current period. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the School District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period.

Property taxes are recorded when levied. Property taxes which have not been collected within 60 days, and therefore do not meet the "available" criterion, are reported as deferred revenue until collected. Anticipated refunds of such taxes are recorded as liabilities and reductions of revenue when they are measurable and their validity seems certain.

Minimum school program revenues and other revenues from the Utah State Office of Education are considered "measurable" and recognized as revenue when available and remitted to the School District in time to be used to pay current obligations. Grant revenue is recognized when qualified expenditures are incurred and a contractual claim exists with the grantor agency. All other revenue items are considered to be measurable and available only when cash is received by the School District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. Exceptions to this general rule include principal and interest on long-term debt as well as expenditures related to compensated absences, which are recognized when payment is due.

The School District reports the following major governmental funds:

**Maintenance and Operation Fund** - This fund accounts for all activities not accounted for by other funds of the School District and is the principal fund. The main sources of revenue for this fund are property taxes and minimum school programs funded by the Utah State Office of Education.

**Debt Service Fund** - The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, long-term debt principal, interest, and related costs.

**Capital Projects Fund** - The Capital Projects Fund is used to account for financial resources to be used for the acquisition, construction, or maintenance of major capital projects.

The School District's nonmajor governmental funds include other special revenue funds. The nonmajor special revenue funds account for specific revenue sources that are legally restricted to expenditures for specified purposes.

KANE COUNTY SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2006

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Fiduciary Fund Financial Statements.** The School District has only one type of fiduciary fund - Student Activities Agency Fund. Agency Funds are used to account for assets held by the School District as an agent for other governments, private organizations, or individuals. Agency Funds are accounted for using the accrual basis of accounting, but due to their custodial nature (assets equal liabilities) do not present results of operations or have a measurement focus.

**D. Budgets**

Budgets are legally adopted on a basis consistent with generally accepted accounting principles. Annual appropriated budgets are adopted for funds. All annual appropriations lapse at fiscal year end.

The School District operates within the budget requirements as specified by State law. The financial reports reflect the following budgetary standards.

1. By June 1, the Business Administrator prepares and files a tentative budget with the School Board. This tentative budget is reviewed and tentatively adopted by the School Board.
2. The tentative budget is made available for public inspection at least ten days prior to a public hearing on adoption of the final budget.
3. By resolution, the Board of Education legally adopts the final budget by June 15, after a public hearing has been held. A certified copy of the budget is kept available for public inspection.
4. Once adopted, the budget can be amended by subsequent action. Reductions in appropriations can be approved by the School Board, but increased appropriations in the governmental funds require a public hearing prior to amending the budget. Budgets may be increased provided that notice of such action is published seven days before the meeting. The budgetary information presented is the final amended budget.
5. Formal budgetary integration is employed as a management control device during the year for all funds.
6. All appropriations lapse following the close of the budget year to the extent that they have not been expended.
7. As determined by State law, the level for which expenditures may not legally exceed appropriations is the total budget of a given department or fund.

**E. Cash and Cash Equivalents and Temporary Investments**

Unrestricted cash balances of all funds are combined to form a pool of cash and investments which is managed by the Business Administrator in accordance with the Utah Money Management Act. Income from the investment of pooled cash is allocated based upon each fund's portion of the pool. Restricted cash consists of that portion of pooled cash that is restricted for a specific use due to constraints imposed by external parties or enabling legislation, or is cash held in trust in compliance with bond covenant, terms and conditions. When both restricted and unrestricted sources are available for use, it is the School District's policy to use restricted resources first, then unrestricted resources as they are needed.

KANE COUNTY SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2006

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Investments are recorded at fair value based upon quoted market prices as of June 30, 2006, except where there is no material difference between cost and fair value. The difference between the purchase price and market price when material is recorded as interest income.

**F. Interfund transactions**

Interfund transactions represent transactions between different funds within the School District. In general, interfund activity has been eliminated from the government-wide financial statements in an effort to minimize the doubling-up of revenues and expenses resulting from such transactions.

**G. Private-sector Standards of Accounting and Financial Reporting**

The School District generally applies to the government-wide financial statements all *Financial Accounting Standards Board (FASB)* Statements and Interpretations, APB Opinions, and Accounting Research bulletins issued on or before November 30, 1989, to the extent that those standards do not conflict with or contradict guidance of the *Governmental Accounting Standards Board (GASB)*. The School District has elected not to follow private-sector guidance subsequent to that date.

**H. Capital Assets**

Capital assets include land, buildings, improvements other than buildings, leasehold improvements, furniture, fixtures and equipment, vehicles, infrastructure (roads, bridges, lighting and flood control) and construction in progress. These assets are reported in the government-wide financial statements in the relevant column on the Statement of Net Assets under governmental activities. Capital assets acquired by governmental funds are recorded as expenditures in the governmental fund financial statements. The capitalization threshold for personal property is defined to be assets with a useful life of at least one year and costing at least \$5,000; real property thresholds vary by type of asset, but are generally established at the same amount. Assets purchased or constructed are generally recorded at cost. If precise cost is not available (as was the case with certain infrastructure), the asset is recorded at estimated historical cost. Donated capital assets are recorded at their estimated fair value at the date of donation.

When constructing capital assets, interest expense incurred relating to governmental activities is not capitalized.

Depreciation of all exhaustible capital assets is charged to the various functional expenses in the government-wide Statement of Activities. Accumulated depreciation is reported on the government-wide Statements of Net Assets. Depreciation is provided over the estimated useful lives using the straight-line method. Estimated useful lives are as follows:

Buildings	10-40 years
Improvements	5-40 years
Equipment	5-20 years
Vehicles	5-10 years



KANE COUNTY SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2006

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**I. Compensated Absences**

It is the School District's policy to permit employees to accumulate earned but not used sick benefits. An estimate of sick pay is accrued when incurred in government-wide financial statements and proprietary funds and reported as a liability. A liability for these amounts is reported in the governmental funds only if benefits have matured as a result of employee resignations and retirements.

**J. Long-term liabilities**

In the government-wide financial statements, long-term debt is reported as a liability. Bond premiums and discounts, defeasance costs, (the difference between the carrying amount of the defeased debt and its reacquisition price in bond refundings), as well as issuance costs, are deferred and amortized over the life of the bonds.

In the fund financial statements, governmental funds recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

**K. Net Assets/Fund Balances**

The difference between assets and liabilities is "Net Assets" on the government-wide and "Fund Balance" on the governmental fund financial statements. Net assets are divided into invested in capital assets (net of related debt), restricted, and unrestricted. Net assets are reported as restricted when constraints are placed upon them by external parties or are imposed by constitutional provisions or enabling legislation.

In the governmental fund financial statements, fund balances are classified as reserved, unreserved designated, or unreserved undesignated. Reserves represent those portions of fund balance not appropriable for expenditure or legally segregated for a specific future use. Designated fund balances represent tentative plans for future use of financial resources.

**L. Inventories**

Inventories for the Special Revenue Fund (School Food Services Fund) are valued at average cost utilizing the weighted average method.

**NOTE 2. PROPERTY TAX**

Property taxes attach as an enforceable lien on property as of January 1. Taxes are levied on June 15 and are due November 30. County property tax revenues are not recognized when levied because they are not expected to be collected within 60 days after the end of the current year. This policy meets the criteria of GASB.

**KANE COUNTY SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2006**

**NOTE 3. RECEIVABLES**

Receivables at June 30, 2006, consist of the following

	<u>Taxes</u>	<u>Due from other Governments</u>	<u>Accounts</u>	<u>Total</u>
<b>Governmental activities:</b>				
Maintenance and Operation Fund	\$ 148,501	\$ 265,871	\$ 887	\$ 415,259
Debt Service Fund	63,816	-	1,536	65,352
Capital Projects Fund	66,228	-	-	66,228
Nonmajor Funds	-	34,681	2,565	37,246
Total receivables	<u>\$ 278,545</u>	<u>\$ 300,552</u>	<u>\$ 4,988</u>	<u>\$ 584,085</u>

No allowance for uncollectible accounts has been provided for because the School District believes that all accounts receivable are collectible.

**NOTE 4. CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2006, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
<b>Governmental activities:</b>				
Capital assets not being depreciated:				
Land	\$ 1,354,937	\$ -	\$ -	\$ 1,354,937
Construction in progress	63,184	137,995	(145,269)	55,910
Total capital assets not being depreciated	<u>1,418,121</u>	<u>137,995</u>	<u>(145,269)</u>	<u>1,410,847</u>
Capital assets being depreciated:				
Buildings	24,818,693	260,959	-	25,079,652
Improvements other than buildings	1,316,925	5,763	-	1,322,688
Furniture, machinery and equipment	825,476	19,076	(17,546)	827,006
Vehicles	1,532,211	26,928	-	1,559,139
Total capital assets being depreciated	<u>28,493,305</u>	<u>312,726</u>	<u>(17,546)</u>	<u>28,788,485</u>
Less accumulated depreciation				
Buildings	(9,809,671)	(645,185)	-	(10,454,856)
Improvements other than buildings	(381,664)	(60,464)	-	(442,128)
Furniture, machinery and equipment	(391,040)	(58,556)	17,546	(432,050)
Vehicles	(1,045,360)	(93,376)	-	(1,138,736)
Total accumulated depreciation	<u>(11,627,735)</u>	<u>(857,581)</u>	<u>17,546</u>	<u>(12,467,770)</u>
Total capital assets being depreciated, net	<u>16,865,570</u>	<u>(544,855)</u>	<u>-</u>	<u>16,320,715</u>
Governmental activity capital assets, net	<u>\$ 18,283,691</u>	<u>\$ (406,860)</u>	<u>\$ (145,269)</u>	<u>\$ 17,731,562</u>

Depreciation expense was charged to functions as follows:

<b>Governmental activities:</b>	
Instruction	\$ 731,176
Support services:	
Students	-
Instructional staff	-
General administration	15,517
School administration	-
Business	-
Operations/Maintenance of plant	23,304
Student transportation	87,584
Central services	-
Other	-
School food services	-
Facilities acquisition/construction	-
Total depreciation expense - governmental activities	<u>\$ 857,581</u>

**KANE COUNTY SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2006**

**NOTE 5. RETIREMENT PLANS**

**Plan Description.** Kane County School District contributes to the Local Governmental Contributory Retirement System and Local Governmental Noncontributory Retirement System and Public Safety Retirement System for employers with Social Security coverage cost-sharing multiple-employer defined benefit pension plans administered by the Utah Retirement Systems (Systems). Utah Retirement Systems provide refunds, retirement benefits, annual cost of living adjustments and death benefits to plan members and beneficiaries in accordance with retirement statutes.

The Systems are established and governed by the respective sections of Chapter 49 of the Utah Code Annotated 1953 as amended. The Utah State Retirement Office Act in Chapter 49 provides for the administration of the Utah Retirement Systems and Plans under the direction of the Utah State Retirement Board (Board) whose members are appointed by the Governor. The Systems issue a publicly available financial report that includes financial statements and required supplementary information for the Local Governmental Contributory Retirement System, Local Governmental Noncontributory Retirement System, and Public Safety Retirement System for employers with Social Security coverage. A copy of the report may be obtained by writing to the Utah Retirement Systems, 540 East 200 South, Salt Lake City, UT 84102 or by calling 1-800-365-8772.

**Funding Policy.** Plan members in the Local Governmental Contributory Retirement System are required to contribute 6.00% of their annual covered salary (5% paid by the employer for the employee) and Kane County School District is required to contribute 8.89% of their annual covered salary. In the Local Governmental Noncontributory Retirement System, Kane County School District is required to contribute 13.38% of their annual covered salary. The contribution rates are the actuarially determined rates. The contribution requirements of the Systems are authorized by statute and specified by the Board.

Kane County School District's contributions to the Local Governmental Contributory Retirement System for the years ending June 30, 2006, 2005 and 2004 were \$5,875, \$5,489, and \$4,087, respectively; and for the Noncontributory Retirement System the contributions for June 30, 2006, 2005 and 2004 were \$571,000, \$540,246, and \$472,170, respectively. The contributions were equal to the required contributions for each year.

The School District also participates in the Utah Retirement System 401(k) plan. The School District funds 1.5% of eligible payroll costs. Vesting is immediate. The School District contributed \$97,759 in 2006 and employee contributions were \$211,357.

**KANE COUNTY SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2006**

**NOTE 6. LONG-TERM OBLIGATIONS**

The School District has the following long-term obligations at June 30, 2006:

The School District issued \$7,990,000 general obligation bonds dated May 1, 1999, for the purpose of constructing a new middle school and remodeling other schools. The bonds mature over a period of 15 years with final payment occurring June 15, 2014. The bonds expiring after June 15, 2008, were refunded in 2004. The School District issued \$4,665,000 general obligation refunding bonds in 2004 and placed \$4,698,178 in a refunding escrow to defease \$4,375,000 of the original general obligation bonds. This resulted in a realized loss on refunding of \$(323,178) and an economic gain of \$91,361. The present outstanding balance of the defeased bonds is \$4,375,000. The following is the debt service schedule for the remaining period of both bond issues:

**1999 G.O. Bonds:**

<b>Year</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>	<b>Interest Rate</b>
2007	\$ 575,000	\$ 52,360	\$ 627,360	4.40%
2008	615,000	27,060	642,060	4.40%
	<u>\$ 1,190,000</u>	<u>\$ 79,420</u>	<u>\$ 1,269,420</u>	

**2004 G.O. Refunding Bonds:**

<b>Year</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>	<b>Interest Rate</b>
2007	\$ 40,000	\$ 144,022	\$ 184,022	2.50%
2008	45,000	143,023	188,023	2.50%
2009	685,000	141,897	826,897	2.50%
2010	715,000	124,773	839,773	3.00%
2011	740,000	103,322	843,322	3.00%
2012	760,000	81,123	841,123	3.25%
2013	785,000	56,423	841,423	3.45%
2014	815,000	29,340	844,340	3.60%
	<u>\$ 4,585,000</u>	<u>\$ 823,923</u>	<u>\$ 5,408,923</u>	

KANE COUNTY SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2006

**NOTE 6. LONG-TERM OBLIGATIONS (Continued)**

The remaining long-term debt consists of compensated absences in the amount of \$112,756.

The School District offers eligible employees a retirement stipend and insurance benefit. The insurance benefit is to provide health and accident insurance at a couple rate for a period up to five years. Once a retiree is eligible for Medicare part A, then the insurance benefit expires. The School District funds this benefit on a pay-as-you-go basis. During 2006, fourteen individuals were participating at a cost of \$238,718. The School District has a potential liability for post-employment benefits for 18 eligible current employees and 15 retired employees. The School District has recorded a liability for this estimated amount calculated at the net present value of the estimated liability. The amount recorded in the financial statements for 2006 is \$1,712,267.

Transactions affecting long-term obligations are as follows:

	Bonds Payable	Leases Payable	Compensated Absences	Post Employment Benefits	Total
Governmental					
Balance, July 1	\$ 6,335,000	\$ -	\$ 210,921	\$ 1,440,530	\$ 7,986,451
Additions	-	-	39,000	510,455	549,455
Retirements	(560,000)	-	(137,165)	(238,718)	(935,883)
Balance, June 30	<u>\$ 5,775,000</u>	<u>\$ -</u>	<u>\$ 112,756</u>	<u>\$ 1,712,267</u>	<u>\$ 7,600,023</u>
Due within 1 year	<u>\$ 615,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 209,264</u>	<u>\$ 824,264</u>

**KANE COUNTY SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2006**

**NOTE 7. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

For 2006, no funds had expenditures in excess of budget or deficit fund balances.

**NOTE 8. CASH AND INVESTMENTS**

The School District maintains a Deposit and Investment Pool that is available for use by all funds of the District. Each fund type's portion of this pool is disclosed on the combined balance sheet as "cash and cash equivalents".

**Deposits**

At June 30, 2006, the carrying amount of the School District deposits was \$154,670 and the bank balance was \$175,791. Of the bank balance, \$175,791 was covered by federal depository insurance. Deposits are not collateralized nor are they required to be by state statute. However, the State Commissioner of Financial Institutions monitors financial institutions and establishes limits for deposit of public money at individual financial institutions, and the School District follows these recommendations. At June 30, 2006, the carrying amount and bank balance of the Foundation's deposits was \$30,563, all of which was covered by federal depository insurance.

The School District follows the requirements of the Utah Money Management Act (Utah Code Annotated 1953 Section 51, Chapter 7) in handling its depository and temporary investment transactions. This law requires the deposit of School District funds in a "qualified depository". The act defined a "qualified depository" as any financial institution whose deposits are insured by an agency of the Federal Government and which has been certified by the Commissioner of Financial Institutions as meeting the requirements of the Act and adhering to the rules of the Utah Money Management Council.

**Investments**

At June 30, 2006, the School District's investment balances were as follows:

<b>Investment Type</b>	<b>Fair Value</b>	<b>Maturity</b>	<b>Rating</b>
Repurchase Agreement	\$ 815,517	one day	not rated
Utah Public Treasurer's Investment Fund	3,083,998	less than one year	not rated
<b>Total</b>	<u><u>\$ 3,899,515</u></u>		

KANE COUNTY SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2006

**NOTE 8. CASH AND INVESTMENTS (Continued)**

*Interest Rate Risk.* Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. The School District has no formal policy regarding interest rate risk. As a means of limiting its exposure to fair value losses arising from rising interest rates, the School District invests in the Utah Public Treasurer's Investment Fund which is short term.

*Credit Risk.* Credit risk is the risk that the counterparty to an investment will not fulfill its obligations. The School District has no formal policy regarding credit risk. The investment in the Utah Public Treasurer's Investment Fund is unrated. These monies are invested primarily in money market securities.

*Custodial Credit Risk.* For an investment, the custodial risk is the risk that in the event of the failure of the counterparty, the School District will not be able to recover the value of its investments that are in the possession of an outside party. The School District's \$815,517 investments in repurchase agreements are uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department but not in the School District's name. The School District has no formal policy on custodial credit risk.

As reported in the financial statements:

Cash and cash equivalents	\$ 3,899,515
Restricted cash and cash equivalents	53,681
Fiduciary Funds - cash and cash equivalents	100,989
Component Unit - cash and cash equivalents	30,563
	<u>\$ 4,084,748</u>

The Utah Public Treasurer's Investment Fund (UPTIF) is an external deposit and investment pool wherein governmental entities are able to pool the monies from several entities to improve investment efficiency and yield. These monies are invested primarily in money market securities and contain no withdrawal restrictions. As such, the monies invested in this fund are not insured and are subject to the same market risks as any similar investment in money market funds. The Fund investments must comply with the provisions of the Utah Money Management Act. The Fund is not SEC registered and is unrated. The fair value of the School District's position in the fund is the same as the value of fund shares.

**NOTE 9. RECONCILIATION OF INTERFUND BALANCES AND TRANSFERS**

The following table provides a reconciliation of all interfund transfers:

Fund	Transfers in	Fund	Transfers out
School Food Service Fund	<u>\$ 42,000</u>	Maintenance & Operation Fund	<u>\$ 42,000</u>
	<u>\$ 42,000</u>		<u>\$ 42,000</u>

The transfer was made to alleviate operating deficits in the School Food Service Fund.

Short term interfund borrowings were necessary at year end to eliminate the deficit pooled cash balance in the Capital Projects Fund of \$352,000. The total of \$352,000 was borrowed from the Debt Service Fund and was re-paid at the beginning of the new fiscal year. The amounts are shown as Due to/from other funds in the governmental funds balance sheet. All interfund balances have been eliminated in the government-wide financial statement presentation of net assets.

**KANE COUNTY SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2006**

**NOTE 10. MEMBERSHIP CHANGES**

The School District receives funding from the Utah State Board of Education based on formulas calculated using the School District membership figures. As School District membership increases or decreases, corresponding funding from the Utah State Board of Education has the potential to increase or decrease. This could result in future funding decreases. The amount of any potential decrease in funding is not available.



**OTHER SUPPLEMENTARY INFORMATION**

KANE COUNTY SCHOOL DISTRICT  
DEBT SERVICE FUND  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL  
FOR THE YEAR ENDED JUNE 30, 2006

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Property taxes	\$ 500,000	\$ 500,000	\$ 909,313	\$ 409,313
Intergovernmental	-	-	-	-
Charges for services	-	-	-	-
Investment earnings	130	130	2,321	2,191
Grants, contributions and donations	-	-	-	-
Miscellaneous	-	-	-	-
Total revenues	<u>500,130</u>	<u>500,130</u>	<u>911,634</u>	<u>411,504</u>
<b>EXPENDITURES</b>				
Current:				
Debt Service:				
Principal	560,000	560,000	560,000	-
Interest and fiscal charges	220,503	241,003	221,003	20,000
Bond issuance costs	-	-	-	-
Total expenditures	<u>780,503</u>	<u>801,003</u>	<u>781,003</u>	<u>20,000</u>
Excess of revenues over expenditures	<u>(280,373)</u>	<u>(300,873)</u>	<u>130,631</u>	<u>431,504</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	-	-	-	-
Transfers out	-	-	-	-
Proceeds from bond refunding	-	-	-	-
Payments to refunding escrow	-	-	-	-
Total other financing sources and uses	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	<u>(280,373)</u>	<u>(300,873)</u>	<u>130,631</u>	<u>431,504</u>
Fund balances - beginning	<u>933,046</u>	<u>933,046</u>	<u>933,046</u>	<u>-</u>
Fund balances - ending	<u>\$ 652,673</u>	<u>\$ 632,173</u>	<u>\$ 1,063,677</u>	<u>\$ 431,504</u>

The notes to the financial statements are an integral part of this statement.

KANE COUNTY SCHOOL DISTRICT  
CAPITAL PROJECTS FUND  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL  
FOR THE YEAR ENDED JUNE 30, 2006

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Property taxes	\$ 850,000	\$ 850,000	\$ 943,692	\$ 93,692
Intergovernmental	-	-	-	-
Charges for services	231,217	242,346	248,744	6,398
Investment earnings	36,000	36,000	74,802	38,802
Grants, contributions and donations	-	-	700	700
Miscellaneous	-	-	-	-
Total revenues	<u>1,117,217</u>	<u>1,128,346</u>	<u>1,267,938</u>	<u>139,592</u>
EXPENDITURES				
Current:				
Instruction	97,028	193,357	160,910	32,447
Student services:				
Operation/maintenance of plant	214,150	377,840	409,700	(31,860)
Facilities acquisition/construction	518,597	549,403	323,065	226,338
Debt Service	-	-	-	-
Total expenditures	<u>829,775</u>	<u>1,120,600</u>	<u>893,675</u>	<u>226,925</u>
Excess of revenues over expenditures	<u>287,442</u>	<u>7,746</u>	<u>374,263</u>	<u>366,517</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	-	-
Transfers out	-	-	-	-
Capital leases	-	-	-	-
Sale of capital assets	-	-	-	-
Total other financing sources and uses	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	<u>287,442</u>	<u>7,746</u>	<u>374,263</u>	<u>366,517</u>
Fund balances - beginning	<u>689,258</u>	<u>689,258</u>	<u>689,258</u>	<u>-</u>
Fund balances - ending	<u>\$ 976,700</u>	<u>\$ 697,004</u>	<u>\$ 1,063,521</u>	<u>\$ 366,517</u>

The notes to the financial statements are an integral part of this statement.

KANE COUNTY SCHOOL DISTRICT  
COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
JUNE 30, 2006

	Special Revenue Funds		Total Nonmajor Governmental Funds
	Non K-12 Fund	School Food Service Fund	
<b>ASSETS</b>			
Cash and cash equivalents	\$ 119,848	\$ 230	\$ 120,078
Investments	-	-	-
Receivables (net of allowance for uncollectibles):			
Accounts	-	2,565	2,565
Taxes	-	-	-
Due from other governments	21,156	13,525	34,681
Inventory	-	9,844	9,844
<b>Total assets</b>	<b>\$ 141,004</b>	<b>\$ 26,164</b>	<b>\$ 167,168</b>
<b>LIABILITIES AND FUND BALANCE</b>			
<b>Liabilities</b>			
Accounts payable	\$ 981	\$ 7,542	\$ 8,523
Accrued payroll liabilities	4,793	-	4,793
<b>Total liabilities</b>	<b>5,774</b>	<b>7,542</b>	<b>13,316</b>
<b>Fund balances</b>			
Reserved for inventory	-	9,844	9,844
<b>Unreserved</b>			
Undesignated	135,230	8,778	144,008
<b>Total fund balances</b>	<b>135,230</b>	<b>18,622</b>	<b>153,852</b>
<b>Total liabilities and fund balances</b>	<b>\$ 141,004</b>	<b>\$ 26,164</b>	<b>\$ 167,168</b>

**KANE COUNTY SCHOOL DISTRICT**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND**  
**NONMAJOR GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2006**

	<u>Special Revenue Funds</u>		<u>Total</u>
	<u>Non K-12</u>	<u>School Food</u>	<u>Nonmajor</u>
	<u>Fund</u>	<u>Services Fund</u>	<u>Governmental</u>
			<u>Funds</u>
<b>REVENUES</b>			
Lunch sales	\$ -	\$ 138,352	\$ 138,352
Charges for services	9,946	-	9,946
Intergovernmental	157,268	236,947	394,215
Investment earnings	-	-	-
Miscellaneous	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>
Total revenues	<u>167,214</u>	<u>375,299</u>	<u>542,513</u>
<b>EXPENDITURES</b>			
Current:			
Instruction	165,420	-	165,420
Support services:	-	-	-
Students	300	-	300
Other	54	-	54
School food services	-	423,300	423,300
	<u>-</u>	<u>423,300</u>	<u>423,300</u>
Total expenditures	<u>165,774</u>	<u>423,300</u>	<u>589,074</u>
Excess (deficiency) of revenue over (under) expenditures	<u>1,440</u>	<u>(48,001)</u>	<u>(46,561)</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers in	-	42,000	42,000
Transfers out	-	-	-
Refunding bonds issued	-	-	-
Refunding bonds issuance costs	-	-	-
Advance refunding escrow	-	-	-
Sale of capital assets	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses)	<u>-</u>	<u>42,000</u>	<u>42,000</u>
Net change in fund balances	1,440	(6,001)	(4,561)
Fund balances-beginning	133,790	24,623	158,413
Fund balances-ending	<u>\$ 135,230</u>	<u>\$ 18,622</u>	<u>\$ 153,852</u>

KANE COUNTY SCHOOL DISTRICT  
NON K-12 FUND  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL  
FOR THE YEAR ENDED JUNE 30, 2006

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget - Positive (Negative)
<b>REVENUES</b>				
Property taxes	\$ -	\$ -	\$ -	\$ -
Intergovernmental	156,641	156,641	157,268	627
Charges for services	7,550	8,550	9,946	1,396
Investment earnings	-	-	-	-
Grants, contributions and donations	-	-	-	-
Miscellaneous	-	-	-	-
Total revenues	<u>164,191</u>	<u>165,191</u>	<u>167,214</u>	<u>2,023</u>
<b>EXPENDITURES</b>				
Current:				
Instruction	164,636	162,432	165,420	(2,988)
Support services:				
Students	-	7,000	300	6,700
Other	-	54	54	-
School food services	-	-	-	-
Total expenditures	<u>164,636</u>	<u>169,486</u>	<u>165,774</u>	<u>3,712</u>
Excess of revenues over expenditures	<u>(445)</u>	<u>(4,295)</u>	<u>1,440</u>	<u>5,735</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	-	-	-	-
Transfers out	-	-	-	-
Capital leases	-	-	-	-
Sale of capital assets	-	-	-	-
Total other financing sources and uses	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	<u>(445)</u>	<u>(4,295)</u>	<u>1,440</u>	<u>5,735</u>
Fund balances - beginning	133,790	133,790	133,790	-
Fund balances - ending	<u>\$ 133,345</u>	<u>\$ 129,495</u>	<u>\$ 135,230</u>	<u>\$ 5,735</u>

KANE COUNTY SCHOOL DISTRICT  
SCHOOL FOOD SERVICE FUND  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL  
FOR THE YEAR ENDED JUNE 30, 2006

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget - Positive (Negative)
REVENUES				
Property taxes	\$ -	\$ -	\$ -	\$ -
Intergovernmental	206,000	206,000	236,947	30,947
Charges for services-lunch sales	121,200	121,211	138,352	17,141
Investment earnings	-	-	-	-
Grants, contributions and donations	-	-	-	-
Miscellaneous	-	-	-	-
Total revenues	<u>327,200</u>	<u>327,211</u>	<u>375,299</u>	<u>48,088</u>
EXPENDITURES				
Current:				
Instruction	-	-	-	-
Support services:				
Students	-	-	-	-
School food services	387,108	434,108	423,300	10,808
Total expenditures	<u>387,108</u>	<u>434,108</u>	<u>423,300</u>	<u>10,808</u>
Excess of revenues over expenditures	<u>(59,908)</u>	<u>(106,897)</u>	<u>(48,001)</u>	<u>58,896</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	40,000	40,000	42,000	2,000
Transfers out	-	-	-	-
Capital leases	-	-	-	-
Sale of capital assets	-	-	-	-
Total other financing sources and uses	<u>40,000</u>	<u>40,000</u>	<u>42,000</u>	<u>2,000</u>
Net change in fund balances	<u>(19,908)</u>	<u>(66,897)</u>	<u>(6,001)</u>	<u>60,896</u>
Fund balances - beginning	24,623	24,623	24,623	-
Fund balances - ending	<u>\$ 4,715</u>	<u>\$ (42,274)</u>	<u>\$ 18,622</u>	<u>\$ 60,896</u>

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KANE COUNTY SCHOOL DISTRICT

SINGLE AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2006

**KANE COUNTY SCHOOL DISTRICT  
SINGLE AUDIT REPORT  
FOR THE YEAR ENDED JUNE 30, 2006**

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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH  
MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN  
ACCORDANCE WITH OMB CIRCULAR A-133 AND  
AUDITORS' REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

The Honorable Board of Education  
Kane County School District

**Compliance**

We have audited the compliance of Kane County School District with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2006. Kane County School District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Kane County School District's management. Our responsibility is to express an opinion on Kane County School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Kane County School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Kane County School District's compliance with those requirements.

In our opinion, Kane County School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

## **Internal Control Over Compliance**

The management of Kane County School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Kane County School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

## **Schedule of Expenditures of Federal Awards**

We have audited the financial statements of the governmental activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of Kane County School District as of and for the year ended June 30, 2006, and have issued our report thereon dated August 11, 2006. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise Kane County School District's basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of Kane County School District, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Wiggins & Co., PC*

August 11, 2006

**KANE COUNTY SCHOOL DISTRICT  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2006**

<b>Federal Grantor/Grantor Pass Through/Grantor Program Title</b>	<b>Federal CFDA Number</b>	<b>Pass-through Entity Number</b>	<b>Federal Award Expended</b>	<b>Major Program</b>
<b>U.S. Department of Agriculture:</b>				
<b>Passed through Utah State Office of Education:</b>				
Food Distribution (Commodities)	10.550	N/A	\$ 20,902	
School Breakfast Program	10.553	44	32,378	
<b>National School Lunch Program:</b>				
Section 4	10.555	42/43	28,367	
Section 11	10.555	42/43	125,350	
<b>Passed through Kane County:</b>				
Forest Reserve	10.666	N/A	<u>18,794</u>	
Total U.S. Department of Agriculture			<u>225,791</u>	
<b>U.S. Department of Education:</b>				
<b>Passed through Utah State Office of Education:</b>				
Adult Education Act	84.002	33	3,527	
Title I-Grants to Local Educational Agencies	84.010A	08	166,314	X
Special Education	84.027A	19	255,141	
Vocational Education-Basic Grants to States	84.048A	20/21	16,449	
Special Education-Preschool Grants	84.173A	52	21,156	
Drug Free Schools	84.186A	9	6,796	
Tech-Literacy Challenge	84.318X	7	3,598	
Improving Teacher Quality State Grants	84.367	75	75,845	X
FIE Earmark	84.215K	10/14	17,642	
Innovative Programs - Administration	84.298A		<u>9,844</u>	
Total U.S. Department of Education			<u>576,312</u>	
Total Expenditures of Federal Awards			<u>\$ 802,103</u>	

See Accompanying Notes.

**KANE COUNTY SCHOOL DISTRICT  
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2006**

**NOTE 1. PURPOSE OF THE SCHEDULE**

The accompanying Schedule of Expenditures of Federal Awards (Schedule) is a supplementary schedule of Kane County School District's basic financial statements and is presented for purposes of additional analysis. Because the Schedule presents only a select portion of the activities of Kane County School District, it is not intended to and does not present either the financial position, changes in fund balances or the revenues or expenditures of Kane County School District.

**NOTE 2. SIGNIFICANT ACCOUNTING POLICIES**

- A. Basis of Presentation** - The information in the Schedule is presented in accordance with OMB Circular A-133.

Federal Financial Assistance - Pursuant to OMB Circular A-133, federal financial assistance is defined as assistance provided by a federal agency, either directly or indirectly, in the form of grants, contracts, cooperative agreements, loans, loan guarantees, property, interest subsidies, insurance, or direct appropriations. Accordingly, non-monetary federal awards, including federal surplus property, are included in federal awards and, therefore, are reported on the Schedule. Federal awards do not include direct federal cash assistance to individuals. Solicited contracts between the State and Federal Government for which the Federal Government procures tangible goods or services are not considered to be federal awards.

Major and Nonmajor Programs - OMB Circular A-133 establishes the levels of expenditures or expenses to be used in defining major and nonmajor federal awards programs.

- B. Reporting Entity** - The reporting entity is fully described in the footnotes of the Kane County School District's financial statements. The schedule includes all federal awards programs administered by the Kane County School District for the year ended June 30, 2006.

**KANE COUNTY SCHOOL DISTRICT  
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2006**

**NOTE 2.      SIGNIFICANT ACCOUNTING POLICIES (continued)**

- C.    **Basis of Accounting** - The expenditures in the Schedule are recognized as incurred based on the modified accrual basis of accounting and the cost accounting principles contained in OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*. Under those cost principles, certain types of expenditures are not allowable or are limited as to reimbursement.

**Indirect Costs** - The schedule includes a portion of costs associated with general School District's activities which are allocated to federal awards under negotiated formulas commonly referred to as indirect cost rates.

**Matching Costs** - The Schedule does not include matching expenditures.

**Non-monetary Assistance** - The District received non-monetary assistance during the fiscal year in the means of federal food distribution (commodities).

KANE COUNTY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2006

**Section I - Summary of Auditors' Results**

**Financial Statements**

Type of auditors' report issued: Unqualified  
Internal control over financial reporting:  
Material weakness(es) identified? \_\_\_\_\_ yes X no  
Reportable condition(s) identified  
not considered to be material weaknesses? \_\_\_\_\_ yes X none reported  
Noncompliance material to financial statements noted? \_\_\_\_\_ yes X no

**Federal Awards**

Internal control over major programs:  
Material weakness(es) identified? \_\_\_\_\_ yes X no  
Reportable condition(s) identified  
not considered to be material weaknesses? \_\_\_\_\_ yes X none reported  
Type of auditors' report issued on compliance  
for major programs: Unqualified  
Any audit findings disclosed that are required  
to be reported in accordance with  
Circular A-133, Section .510(a)? \_\_\_\_\_ yes X no

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.010A	Title I - Grants to Local Educational Entities
84.367	Improving Teacher Quality State Grants

Dollar threshold used to distinguish  
between Type A and Type B programs: \$ 300,000  
Auditee qualified as low-risk auditee? X yes \_\_\_\_\_ no



KANE COUNTY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
YEAR ENDED JUNE 30, 2006

**Section II - Financial Statement Findings**

This section identifies the reportable conditions, material weaknesses, and instances of noncompliance related to the financial statements that are required to be reported in accordance with paragraphs 5.18 through 5.20 of *Government Auditing Standards*.

There were no reportable conditions or material weaknesses noted during our audit. Accordingly, no such matters are reported.

**Section III - Federal Awards**

There were no findings related to this section. Accordingly, nothing is reported in this section.

**KANE COUNTY SCHOOL DISTRICT  
MANAGEMENT REPORT  
FOR THE YEAR ENDED JUNE 30, 2006**

KANE COUNTY SCHOOL DISTRICT  
MANAGEMENT REPORT  
FOR THE YEAR ENDED JUNE 30, 2006

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**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE  
WITH *GOVERNMENT AUDITING STANDARDS***

To the Honorable Board of Education  
Kane County School District

We have audited the financial statements of the governmental activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of Kane County School District, as of and for the year ended June 30, 2006, which collectively comprise Kane County School District's basic financial statements and have issued our report thereon dated August 11, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered Kane County School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Kane County School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance, which we have reported to management of Kane County School District in the accompanying Schedule of Findings, Recommendations, and Responses.

This report is intended solely for the information of the management, Board of Education, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.

*Wiggins & Co., PC*

Brigham City, Utah  
August 11, 2006

**INDEPENDENT AUDITORS' REPORT  
ON STATE OF UTAH LEGAL COMPLIANCE**

**To the Honorable Board of Education  
Kane County School District**

We have audited the accompanying financial statements of the governmental activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of Kane County School District for the year ended June 30, 2006, and have issued our report thereon dated August 11, 2006. As part of our audit, we have audited Kane County School District's compliance with the requirements governing types of services allowed or unallowed; eligibility; matching; level of effort, or earmarking; reporting; special tests and provisions applicable to each of its major State assistance programs as required by the State of Utah Legal Compliance Audit Guide for the year ended June 30, 2006. The District received the following major State Assistance Programs from the State of Utah:

**Minimum School Program (State Office of Education)  
School Lunch (State Office of Education)**

The District also received the following nonmajor grants which are not required to be audited for specific compliance requirements: (However, these programs were subject to testwork as part of the audit of the District's financial statements.)

**Drivers Education (State Office of Education).**

Our audit also included testwork on the District's compliance with those general compliance requirements identified in the State of Utah Legal Compliance Audit Guide, including:

**Public Debt  
Cash Management  
Purchasing Requirements  
Budgetary Compliance  
Truth in Taxation and Property Tax Limitations  
Other General Issues**

The management of Kane County School District is responsible for the District's compliance with all compliance requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures disclosed immaterial instances of noncompliance with the requirements referred to above, which are described in the accompanying Schedule of Findings, Recommendations and Responses. We considered these instances of noncompliance in forming our opinion on compliance, which is expressed in the following paragraph.

In our opinion, Kane County School District, complied in all material respects, with the general compliance requirements identified above and the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; and special tests and provisions that are applicable to each of its major State Assistance Programs for the year ended June 30, 2006.

*Wiggins + Co., PC*

Brigham City, Utah  
August 11, 2006

**KANE COUNTY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS, RECOMMENDATIONS AND RESPONSES  
FOR THE YEAR ENDED JUNE 30, 2006**

**STATE LEGAL COMPLIANCE ITEMS**

**06-01 CASH MANAGEMENT**

**Finding:**

Utah Code 51-4-2(2) states that all public funds shall be deposited daily, whenever practicable, but not later than three business days after receipt. We noted instances, at the District office and a few schools, where this requirement was not met.

**Recommendation:**

We recommend that deposits be made in compliance with State statutes. This is a continuing finding. The District administrative personnel need to emphasize the necessity of complying with this requirement to District personnel and then take steps to monitor the cash management procedures at the schools. Compliance with this requirement insures accountability, improves earnings and safeguards financial assets.

**Response:**

The District agrees with this finding. The Business will monitor this area more closely in the future.

**06-02 TRUTH IN TAXATION**

**Finding:**

State statute requires that the original budgeted amounts for property tax revenue should agree with the amounts on the PT-250-SCH (School District Tax Rate Summary).

**Recommendation:**

We recommend that District agree the amounts from PT-250-SCH to the original budgeted tax revenue. If required, the District could amend the original budget for adjustments from increases or decreases resulting from the adopted certified tax rate.

**Response:**

The District agrees with this finding. Steps will be taken to comply with this requirement in future years.



**KANE COUNTY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS, RECOMMENDATIONS AND RESPONSES  
FOR THE YEAR ENDED JUNE 30, 2006**

**06-03**

**STUDENT ACTIVITY FUNDS**

**Finding:**

While reviewing the student activity funds, we noted that the principal at one school had "pre-signed" checks before he left for the summer. After those checks were used, his name was signed by other persons at the school for the ongoing expenses. At another school, the secretary signed all reports submitted. The accounting was much improved over last year, but still requires some attention.

**Recommendation:**

We recommend that signers be authorized by the board and sign only completed checks for payment. The principal's should sign the monthly submissions. This would enhance the ability to monitor the financial information of each school. The District should review the reports and follow up on items such as negative balances in designations. There are still some schools with questions about the reporting system and we would recommend that the District conduct periodic training sessions to explain expectations and to allow for input and discussion from the participants.

**Response:**

The District agrees with this finding. We will take action to ensure that checks are not pre-signed and will enhance our procedures to ensure that reports are monitored during the year.

**06-04**

**LEAVE AND TERMINATION POLICIES**

**Finding:**

While reviewing the calculations for compensated absences and early termination benefits, we noted that the procedures followed by the District are not always according to what the policy dictates. It appears the early termination benefits are calculated on a case by case basis. This causes confusion and could result in additional liability to the District.

**Recommendation:**

We recommend that the Board review the leave and early termination benefit policies with the District staff. Specific guidelines should be in place for the calculations and variances should not be granted for individual circumstances.

**Response:**

The District agrees with this finding. We will review our procedures and make sure that they comply with our policies.

KANE COUNTY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS, RECOMMENDATIONS AND RESPONSES  
FOR THE YEAR ENDED JUNE 30, 2006

06-05

**CASH**

**Finding:**

We noted that the District waits until year end to submit reimbursement claims on a few state or federally funded programs. These programs allow the District to submit these claims throughout the year, as long as the reimbursement requests agree with District records and do not exceed the approved budgets.

**Recommendation:**

We recommend that the Business Manager submit these claims during the year to reimburse the District for funds that have been spent to operate these programs. This will enhance the cash management process and allow the District to invest the funds sooner.

**Response:**

The District agrees with this finding and the Business Administrator will try to do a better job of submitting reimbursement claims.

**KANE COUNTY SCHOOL DISTRICT  
STATUS OF PRIOR YEAR FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2006**

**STATE LEGAL COMPLIANCE ITEMS**

**05-1 CASH MANAGEMENT**

**Finding:**

Utah Code 51-4-2(2) states that all public funds shall be deposited daily, whenever practicable, but not later than three business days after receipt. We noted instances, at a few schools, where this requirement was not met.

**Recommendation:**

We recommend that deposits be made in compliance with State statutes. This is a continuing finding. The District administrative personnel need to emphasize the necessity of complying with this requirement to school personnel and then take steps to monitor the cash management procedures at the schools. Compliance with this requirement insures accountability, improves earnings and safeguards financial assets.

**Status:**

Not implemented. See current year findings.

**OTHER CONTROL ITEMS**

**05-2 CASH**

**Finding:**

We noted that the bank reconciliations are prepared monthly and balanced to the activity that is posted to the general ledger; however, a reconciliation of the cash by fund is not performed monthly.

**Recommendation:**

We recommend that a proof of cash which reconciles the book balances to the bank and book activity be prepared every month. This insures accountability and safeguards financial assets.

**Status:**

Implemented.

**KANE COUNTY SCHOOL DISTRICT  
STATUS OF PRIOR YEAR FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2006**

**OTHER CONTROL ITEMS**

**05-2 CASH (Continued)**

**Finding:**

We noted that the bank confirmation for one of the outlying schools was returned because no one from the District office was signatory on the account. We also noted that there was a debit card issued on a school activity account.

**Recommendation:**

We recommend that the Superintendent or the Business Manager be a signatory on all bank accounts of the School District. This would enhance the controls on the accounts and make sure that internal checks can be conducted. All debit cards should be destroyed immediately.

**Status:**

Implemented.

**Finding:**

In our review of the accounting at the various schools, we noted that the District required each school to convert, for consistency, to a common software package. However, since the conversion process, some schools still are not providing the complete reporting package to the District on a monthly basis. Some schools are having difficulty keeping the funds in balance and may require additional training.

**Recommendation:**

We recommend that the District provide District-wide training for all the staff involved in the school accounting. We also recommend that the District monitor the information that comes in from the schools to ensure that all information is balanced and complete.

**Status:**

Partially implemented. The schools have improved significantly and the District oversight is also improved. There was only one school still sending in incorrect reports.

**KANE COUNTY SCHOOL DISTRICT  
STATUS OF PRIOR YEAR FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2006**

**OTHER CONTROL ITEMS**

**05-2 CASH (Continued)**

**Finding:**

We noted that the District waits until year end to submit reimbursement claims on a few state or federally funded programs. These programs allow the District to submit these claims throughout the year, as long as the reimbursement requests agree with District records and do not exceed the approved budgets.

**Recommendation:**

We recommend that the Business Manager submit these claims during the year to reimburse the District for funds that have been spent to operate these programs. This will enhance the cash management process and allow the District to invest the funds sooner.

**Status:**

Not implemented. See current year findings.

**05-3 PROPERTY, PLANT AND EQUIPMENT**

**Finding:**

While testing property, plant and equipment additions, we noted that many items are not being picked up through the year.

**Recommendation:**

We recommend that at least quarterly throughout the year, the listings that are being prepared be compared to the capital general ledger accounts to insure that all additions are listed.

**Status:**

Implemented.

KANE COUNTY SCHOOL DISTRICT  
STATUS OF PRIOR YEAR FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2006

05-3

**PROPERTY, PLANT AND EQUIPMENT (Continued)**

**Finding:**

Also while testing property, plant and equipment, we noted that the schools are not completing the "Form for Disposal of Fixed Assets." In most cases, they are just crossing through items on a prior year listing with no explanation of where these items went, whether they were sold or junked, or who approved the disposal. Upon further investigation by District staff, there were a few newer items that were actually still present and in use and had been crossed off the list in error.

**Recommendation:**

We recommend that care be taken when the schools are asked to verify their equipment lists. If items are deleted, they should have the appropriate forms completed to accompany the report.

**Status:**

Implemented.